

# A COMPARATIVE STUDY OF SOCIAL JUSTICE OF ISLAMIC FINANCE AND CONVENTIONAL FINANCE

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**Abstract:** This research paper conducted with the comparative study of Islamic finance and conventional finance regarding social justice. The methods of comparison based of the social and economic impact of the four basic differential of the two types of financing such as the Islamic obligatory charity (Zakat), Riba (interest or usury), financing of unlawful products or activities, and speculative. The comparative analysis will be conducted through assumptions and examples based on the real-world activities by using microeconomic and macroeconomic analysis of tabular and graphic methods.

**Key words:** Islamic Finance, conventional finance, social justice, Riba, Zakat.

## 1. Introduction

Islam means submission to the will of Almighty Allah as he has created the Universe, including human beings. He has sent the sharia rule (Islamic rule and conduct) in the Holy Quran, and his messenger to teach people the right ways to live and to interact each other and even with other creature as well. And also he distinguishes the lawful things from unlawful for the benefit of people because there is nothing unlawful except the harmful to society. Moreover, Allah will reward those who fulfill his command and abstain from his forbidden in the hereafter.

Social justice is interpreted in various ways depending on the plethora shortcoming of the society; some may define as equal distribution of wealth. However, this is only ideal because everyone could not have equal wealth, and it is out of nature. Other, social justice means providing free education and health service for the poor. But this may be the solution to have the poor a good health condition and education but not bring justice. Many people recommend many things to realize social justice, yet people cry for it because it barely exists. So what is the real reference of social justice? The first and most important thing is why the poor go to starving is the main question to be answered to realize social justice. The prophet (PBUH) said: "Nothing makes a poor man starve except that with which a rich person avails a luxury."

In Islam, social justice has multifaceted aspects; financial justice, fair distribution of wealth, fair judgment among the people, eliminate injustice, etc. Allah ordained in his holy book Quran many verses not to be a wrongdoer and to be justice. Allah said in a holy Quran "O ye who believe! Stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety: and fear Allah. For Allah is well-acquainted with all that ye do." (Quran, chapter 5, verse 8)

Every kind of financing has rule and regulation in Islamic divine laws; the holy Quran, which is Allah's word and Hadith, which is the tradition of Prophet Mohammed (PBUH). However basically, there are four Islamic finance rules which must not be revoked; first, giving charity (Zakat) which is obligatory on the rich to give a small portion of his wealth to the poor. Second, abstaining from Riba, any finance is not acceptable in Islam if it involves Riba. Third, not to do a transaction with unlawful products or activities. The products or activities which are unlawful (haram) to practice are also haram to finance them as well, and fourth, avoiding speculative.

Allah made Zakat (obligatory charity) the third pillar of Islam, and it is one of the best ways of fair distribution of wealth and promoting the balance of payment in the economy and social justice. Another kind of financing to advocate the balance of payment is trading. Allah permitted trade and prohibited Riba (Interest or Usury). Trading is the most important and routine activities to fulfill people needs. In the light of this, Islam emphasis toward the two types of financing in Islam; zakat payment and abstaining from Riba, and also set out the strategy to implement transaction with justice.

Islamic finance encourages risk-sharing transaction, whereas conventional finance is dealing with risk-transferring transactions. According to business law, the transaction should be a win-win. However, we could find this law is practicing in Islamic finance but not in interest-based finance as all risks are transfer to the second party (the borrower). For conventional financing interest is the basic source of income, there is no rule for charity, and there is no product or activity restriction of financing.

Thus this paper will briefly discuss how Islam promotes justices through financing and also analyze the problems of Riba and restricted products. The detail of the paper description is; the first part contains Zakat payment, whereby the Concept of Zakat and the economic benefit and social justice of zakat will carry on. Second, the banning of Riba (interest). Whereby the concept of Riba, the micro and macroeconomic disadvantages of Riba, and the benefit of profit and loss sharing transactions in comparing with the interest-based transaction with regard to beneficial products and the harmful products. Third, the findings and conclusion followed by the recommendation and policy implication.

## 2. Islamic finance and social justice

The components of economic and social justice in Islamic society are (i) equality of liberty and opportunity for all members of society concerning the utilization of natural resources; (ii) justice in exchange, and (iii) distributive justice—all are accomplished within the framework of the Sharia. Liberty means that a person is not prevented from combining his creative labour with resources as designated by the Sharia. Opportunity, on the other hand, represents a favorable conjunction of circumstances, which gives the individual the chance to try it.

Every kind of dealing and interaction, transactions, and financing, is attached to the sharia rules and regulations which make them all free from Riba, speculative, unlawful product and activities, in the way of building justice and peace. Nonetheless, in this paper, the two kinds of Islamic finances such as the benefit of Zakat (obligatory charity) and the harm of Riba (interest) will be discussed inshallah.

## 2.1 Concept and benefits of zakat

### 2.1.1 Definition

Allah has mentioned zakat more than thirty times in the Quran. Zakat is the third pillar of Islam, and it is an obligatory alms upon the wealthy to donate a small portion of his/her wealth to the deserved person per annum. The wealthy refers to the one whose annual saving after deduction of all his annual expenditure is more than the prescribed limit (Nisab) in the sharia.

### 2.1.2 Types of zakat and descriptions

Zakat is categorized into two, zakat-ul-Maal (Zakat on wealth) and zakat-ul fitr (breakfasting charity) or its also called Sadaqatul- fitr. Zakat on wealth refers to a yearly donation of a certain proportion from the wealth of every Muslim whose wealth is above the prescribed amount limit (Nisab) and fulfills the conditions which require for being practicing Islamic obligatory has to pay. The criteria for being practicing Islamic obligatory are; being a Muslim, puberty, sane, and in the case of zakat, the wealth must reach the prescribed limit (Nisab), should round a year on it after deducting all yearly expenditure, and the wealth must belong to the payer. Every kind of property has its own Nisab. For instance, the Nisab of gold is 85g or the one whose money can buy 85g of gold or above and if it is rounded a lunar year; the owner must pay 2.5% of his/her saving money to the beneficiaries.

In addition to that, there is Zakat-ul-Fitr, which means zakat for the breaking of fasting. It is ordained on every Muslim to donate 1Sa'a (3 Kilograms approx.) from the staple food grains on the day of Eid before Salat-ul Eid or before the day of Eid. Narrated Ibn Umar (R.A): ALLAH [S.W.T]'s Apostle [S.A.W] enjoined the payment of one Sa' of dates or one Sa' of barley as Zakat-ul-Fitr on every Muslim slave or free, male or female, and young or old before the people go out to offer the 'Id prayer. Zakat-ul fitr is ordained in favor of the poor to let them celebrate Eid happily after they accomplished one month of Ramadan fasting.

### 2.1.3 Zakat beneficiaries

Allah has allocated zakat unto eight group of people in the Holy Quran "Charities (Sadaqaat) shall go to the poor, the needy, the workers who collect them (zakat), the new reverted to Islam, to free the bondage, to those burdened by sudden expenses, in the cause of Allah, and to the traveling alien. Such is Allah's commandment. Allah is Omniscient, Most Wise."(Quran; Chapter 9 verse 60)

Allah said in the Quran, "Allah advocates justice, charity, and regarding the relatives. And He forbids evil, vice, and transgression. He enlightens you that you may take heed." [Quran; Chapter 16 verse 90] "Therefore, you shall give the relatives their rightful share (of charity), as well as the poor, and the traveling alien. This is better for those who sincerely seek Allah's pleasure; they are the winners." [Quran; Chapter 30 verse 38]

### 2.1.4 Zakat and social justice

Allah said in the Quran "... Any charity you give is for your own good, any charity you give shall be for the sake of Allah. Any charity you give will be repaid to you without the least injustice." [Quran; chapter 2 verse 272]. and further Allah said, "Allah is never unjust in the least degree: If there is any good (done), He doubles it and giveth from His own presence a great reward." (Quran; chapter 4 verse 40). Therefore these Quran verses demonstrate that the Zakat payer is more beneficial than the receiver may improve his life while the payer will get Allah's mercy in his wealth so that his wealth will increase and also in the hereafter he will go to heaven. Moreover, these verses indicate doing righteous, and being justice will benefit the doer more than others.

Allah said, "O you who believe; you shall give to charity from the good things you earn, and from what we have produced for you from the earth. Do not pick out the bad therein to give away, when you yourselves do not accept it unless your eyes are closed. You should know that Allah is Rich, Praiseworthy." [Quran; chapter 2 verse 267] Another Quran verse, "You cannot attain righteousness until you give to charity from the possessions you love. Whatever you give to charity, Allah is fully aware thereof." [3:92] "Kind words and compassion are better than a charity that is followed by an insult." (Quran; chapter 2 Verse 263).

The above verses demonstrate that Zakat payment in addition to economic benefit it also has social benefit as it can create brotherhood and avoid fraud with abomination between rich and poor.

### 2.1.5 The economic benefit of zakat

Zakat distribution has several economic and social benefits. Zakat is distributed to eight categories of people. First, zakat goes to the poor, which can help to fulfill their basic needs. Second, Zakat goes to the needy, which helps to fulfill their life sustenance or to improve living standard. Third, zakat goes to the workers, who are working in collection and distribution, as a salary which could be the source of a job opportunity. Fourth, Zakat goes to the debtors those can't pay their debt, zakat can help them to be productive and improve their lives and their dependence instead of paying lifetime debt. Fifth, zakat goes to bondage, who is captive or imprison for false accusation, zakat freed them from the impressed trap and helped them to be productive. Sixth, zakat goes to newly reverted to Islam, which helps them to replace what they had lost because of accepting Islam. Seventh, zakat goes to the way of Allah so that the corruption reduce in the respective nation. Eighth, zakat goes to the traveler alien who might get trouble on the way, that zakat may help them in returning their original status and reaching their goal. Further, the zakat payers are also not dealt with unjust because Allah will make their wealth doublet and giveth from His own presence of a great reward.

In the result, through zakat payment, one nation can able to achieve the goal of reducing income inequality, eradicating poverty, and eliminating Unemployment. Zakat is also benefits to advocate country development and creates brotherhood relations among society. It can reduce crime and government expenditure. In light of this, it is possible to achieve economic and political stability.

## 2.2 Concept of Riba (interest) and it's harm

Zamir Iqbal and Abbas Mirakhor define Riba literally as "an excess" interpreted as "any unjustifiable increase of capital, whether on loan or sales" is the central tenet of the system. More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal that guaranteed regardless of the outcome of the purpose of borrowed money is Riba. However,

Riba is not confined with a predetermined rate of interest, but it also exists in barter exchange as well. For if the exchange of the same goods but different in quantity and exchanging other than hand to hand is also Riba.

Zamir Iqbal and Abbas Mirakhor had reported that the Islamic judicial law (Sharia) recognizes two forms of Riba; Riba al-Nasihah and Riba al-Fadl. The former deals with Riba in money to money exchange, when the exchange is delayed or deferred and gives rise to an additional charge as practiced today's financial transactions. Whereas the latter is more subtle and deals with hand to hand or barter exchange.

Riba al-Fadl is derived from the saying of the prophets (PBUH). He said, "The bartering of gold for gold is Riba, except if it is from hand to hand and equal in amount. Wheat grain for wheat grain is Riba except if it is from hand to hand and equal in amount. Dates for dates is Riba except if it is from hand to hand and equal in amount, and barley for barley is Riba except if it is from hand to hand and equal in amount." (Sahih Bukhari 3.344). This hadith indicated Riba also exists in kind if the goods are the same but different in quantity, quality, and other than hand to hand. This hadith also shows that everyone's mind should be clear when exchanging take place. Therefore no one feels that has dealt with injustice.

Another hadith which is narrated by Abu Sa'id Al-Khudri and Abu Huraira; the Prophet asked a man from Khaibar "Are all the dates of Khaibar of this kind (Janib)?" The man replied, "(No), we exchange two SA's of bad dates for one SA of this kind of dates, or exchange three SA's for two." On that, the Prophet said, "Don't do so, as it is a kind of Riba but sell the dates of inferior quality for the money, and then buy Janib with the money." (Sahih Bukhari hadith number 499 volume). The above hadiths demonstrate that Islamic finance avoids even small doubt which may happen between the seller and the buyer so that both seller and buyer will satisfy from their dealings.

Allah has prohibited all kinds of Riba in several verses of the Holy Qur'an, the central source of Islamic jurisdiction law, some of them are mentioned as follow:-

- Those who devour Riba will not stand except as stand one whom the Evil one by his touch hath driven to madness. That is because they say: Trade is like Riba, but
- Allah hath permitted trade and forbidden Riba. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge), but
- Those who repeat (The offense) are companions of the Fire: They will abide therein (forever) (Quran, chapter 2 verse 275).
- (O ye who believe! Fear Allah, and give up what remains of your demand for Riba, if ye are indeed believers). (Quran, chapter 2 Verse 278)
- If ye do it not, Take notice of war from Allah and His Messenger: But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly). (Quran, chapter 2 verses 279)
- Similarly, in the *hadith*, the next most authentic source of Islamic juristic law, the Prophet Muhammad (PBUH) cursed the one who takes Riba, the one who pays it, the one who writes the agreement for it and the two witnesses to the agreement.

### 2.2.1 Riba and Social justice in Islamic Perspective vs. traditional perspective

Allah has permitted trade and prohibited Riba in the Holy Quran, chapter 2 verse 275 and other related verses. Islam doctrine teaches the way of doing business transactions and using money effectively in the way of no one dealt with unjust, which leads to win-win transactions. Allah said in Quran "if you don't abstain from receiving Riba then declare war against Allah and his messenger but if you abstain then you have your principal and deal not unjust (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums)." Quran; chapter 2 verse 279) Allah said Riba is unjust and ordered to not approach it for if doing so is declaring war against him and his messenger. Allah is a just, and he hates making unjust and mischief, so the one who does unjust toward his slave through receiving Riba will take a war against him and his messenger.

Islam also has taught that how to do a transaction without receiving Riba in the way of no one can hurt or harm others and in the way of spreading justice which is known as 'profit and loss sharing (PLS) transaction.' Islam encourages partnership transaction for the moneyed but has no time for doing business and a person with plenty of time but has no money, or for the one who may not have enough money to do business can make a partnership with someone in a similar condition. Both parties contribute what they have and run the business as a partnership, and then at the end, they must share whatever the outcome of the business, whether it could be a profit or loss.

A transaction is the most important tools to maximize Human utility in any possible ways. In a business transaction, there is always a risk, and the one who works with money may face a transaction risk or grasp the profit. On the other hand, the one who hoards money also faces a risk in another way which is a risk of reducing the purchasing power of money but not earn a profit because the hoarded money doesn't work for the hoarder because of simply it is collected in the pocket. Therefore, there are two options to avoid the profitless risk that the hoarder can do either doing business which has a transaction risk or transfers his money to the other party who want to do business but hasn't a financial facility. In the former option, he may not have time to do business, so we supposed, he prefers the second option and transfers his money to the second party but how?

According to the conventional doctrine, he should lend his money to the needy on an interest-basis so that all the risk will transfer to the borrower and he will earn a risk-free profit. According to the Islamic doctrine, he should cooperate with someone who wants to do business but not has money, and at the end of the transaction period, he shares the profit and the risk with a business partner according to their agreement. Any rational person who judges for both sides (lender and borrower) equally knows that the Islamic judgment is right and just. Whereas the conventional one is biased to the lender and exploiting the borrower, therefore, it is unjust.

The interest bearings lender receive risk-free profit from the riskier transition. But how about the borrower who is expected to pay a certain profit to the lender from uncertain earnings. What if the borrower incurs loss after devoting his time and effort in business and still needs to pay a profit to the lender out of nothing, what will be the consequence? Is the lender still entitled to claim a profit along with his principal from the borrower loss because of just he had funded the business but not his effort and time?

The borrower might borrow money to improve his living standard. But on the contrary to that, he might need to sell his original house to pay the profit to the sleeper party (the lender) if he was not successful in his business, and he will end up with homeless. Is it just? If we try to return the original status of the lender and the borrower, the lender received his original money along with the

borrower’s home whereas the borrower lost his original home for the sin he doesn’t commit and became homeless. Therefore we can conclude that the lender conducted legal stealing of the borrower’s home. Doing business is not a crime and incurring a loss is not the investor’s fault, so why the borrower should lose his original home what he had before doing business.

For instance, the Cauvery basin became shallow and can’t provide water to the agriculture of Karnataka and Tamil Nadu. Therefore the farmers in that area could not be able to repay their debt. In the result, 47,190 farmers have committed suicide in fifteen years in Cauvery basin because of debt burden out of which 83% IN Tamil Nadu and 77% in Karnataka. Thus if those farmers had dealt according to Islamic finance law, they would not lose their life because of debt burden instead they would have shared with their financier and had a chance to continue their agriculture in anyways possible. Islamic law never put the burden on the individual for out of hand damage.

In sum, the conventional doctrine discourages doing business because the borrower must pay a certain profit from uncertain earnings whereas the Islamic doctrine encourages doing business as the borrower not expected to bear all the business risk but share with the financier as a partnership. In the conventional way of the transaction, the business will end up with the loss of the borrower if it was occurred a loss, and he will join to the poverty circle as he may lose his original property or further may lose his life. Whereas in Islamic doctrine, the business will continue even if the business loses was occurred. In that way, poverty will be eradicated, and further, they may create a job opportunity for unemployment as well.

**2.3 Micro and Macroeconomic Impact of Riba and Banned Products**

Riba (interest) is not only destructing individual life but society. Therefore neither the payer nor the receiver of Riba benefits from it. Thereby some assumptions to demonstrate the figurative result of Riba based on the fact that how Riba could affect the individual and society.

Assumption one; the Impact of interest, we supposed, there are two persons who want to do business but not have capital, so they went two different types of banks; Islamic bank (IB) and the conventional bank (CB) on demand of for each INR 1 million for five years tenure period (2011 to 2015). IB is the tool to implement Islamic finance (IF), and it is Riba free bank, whereas the CB is the tools to implement conventional finance (CB) and Riba based finance. Therefore to analyze the impact of Riba, it is necessary to see the activity of the two types of banks.

The IF’s stakeholders are; IB refers to an interest-free bank and not doing business with unlawful products and activities, and free from speculative. Mudaraba Depositor (MD) refers to the depositor who deposits in Mudaraba (partnership) basis. Mudaraba means one party contribute money and the other contribute effort and time and doing business as a partnership. Therefore MD contributes his money so he will entitle to share the profit and loss of the business. And the third stakeholder is the client whereas the CF’s stakeholders are; the CB, the saving account depositor (SD) and the client. IB deals with the customer to do partnership business on the following basic IF’s conditions.

1. In the case of profitability, the client (Mr. X) should share with the IB according to their agreement rate of profit until the principal amount paid off completely. Let us assume that the bank to receive 15% of the profit in which the MD’s share will be 30%, and the client 85% of the profit for five consecutive business fiscal years. Therefore the client needs to pay 2 lac (1/5 of total principal) plus 15% of the future profit when the business is profitable, to the IB
2. If there will be a loss out of the customer fault, IB will bear all the money loss
3. The customer must not invest the money on unlawful products or activities

On the other hand, the CB deals with a customer on charging of 15% of the principal as the interest rate and no more deal. So both the customer had got NIR 1 million and started a business. Let us supposed that IB’s Customer (Mr. X) has invested in food item wholesale market. Whereas CB’s customer (Mr. Y) has invested in cloth wholesale market. The following table shows their trend of business.

*Table 1 the comparison of social justice under Islamic banking and conventional banking ‘INR in Million’*

Year	W <sub>X</sub>	B <sub>PorL</sub>	IB <sub>PoL</sub>	S <sub>X</sub>	S <sub>MD</sub>	S <sub>IB</sub>	IB <sub>T</sub>	W <sub>Y</sub>	B <sub>PorL</sub>	I	S <sub>Y</sub>	S <sub>SD</sub>	S <sub>CB</sub>	CB <sub>TR</sub>	Y <sub>TP</sub>
2011	1	-0.2	-0.2	0	-0.1	-0.1	0	1	-0.2	0.03	-2	.009	0.021	0.23	-0.43
2012	0.8	-0.1	-0.1	0	-.05	-.05	0.1	0.57	-0.1	0.03	-1	.009	0.021	0.23	-0.33
2013	0.6	0.5	0.33	0.17	0.16	0.17	0.53	0.24	0.2	0.03	.17	.009	0.021	0.23	0.23
2014	0.4	0.8	0.12	0.68	0.036	0.084	0.32	shut	0	0.03	-.03	.009	0.021	0.23	-0.02
2015	0.2	1	0.15	0.85	0.045	0.105	0.35	“””	“””	0.03	-.03	.009	0.021	0.23	-0.23
Total	0	2	0.3	1.7	0.091	0.209	1.3		-0.1	0.15	-0.06	0.045	0.105	1.15	-0.25

Source; the Author

Table 1 shows the comparison of social justice of interest-free bank which is IF and interest-based bank which is CF. The first column shows the fiscal period of the business which was the client agreed with the bank. W<sub>X</sub> and W<sub>Y</sub> indicate the outstanding balance of the principal of Mr. X and Mr. Y which are starting from NIR 1 million what they had received from their host bank. B<sub>PorL</sub>, IB<sub>PorL</sub>, indicate the business profit and loss, and IB share of the profit and loss before the payment of the depositor’s share. S<sub>X</sub>, S<sub>MD</sub>, S<sub>IB</sub>, S<sub>Y</sub>, S<sub>SD</sub>, S<sub>CB</sub> indicate the share of; Mr. X, MD, IB, Mr. Y. SD and CB respectively. IB<sub>TR</sub>, CB<sub>TR</sub> indicate yearly total received of IB and CB from their customer (outstanding yearly principal plus profit or interest). I is an interest Y<sub>TP</sub> is the total payment of Mr. Y including a business loss in which the –ve sing indicates the total loss during business loss and +ve is the payment during profit.

The first two year both X and Y business had got loss in which X shared nothing but all money loss transferred to IB while Y received all the loss burden along interest therefore in 2011 and 2012 Y’s total loss would be INR 0.43 and 0.33 million for each amount represent (business loss plus interest plus principal) respectively. So the consecutive year of W<sub>Y</sub> has reduced by the same amount of Y’s total loss. Whereas, W<sub>X</sub> is reduced by INR 0.2 million in each year which is the yearly outstanding of the total

principal amount in spite of the same amount of loss had occurred as Y’s business. However, the IBTR would reduce by the same amount of business loss, whereas the CBTR remain, Constance because it did nothing share of business loss.

In 2013, both X and Y earned INR 0.5 and 0.2 million from the inputs of INR 0.6 and 0.24 million respectively which is the same rate of profit but not the same absolute value because of their input differential. In which X had paid the previous loss of IB before the net profit realized. And then the net profit would be distributed according to the agreed rate of the entrepreneurs such as 15% goes to IB, and the remains go to X. whereas Y had to pay 0.2 from working capital of 0.24 and 0.03 interest from his profit so the remaining working capital would be INR 0.04 million which can’t cover the yearly outstanding balance of INR 0.2 million so he had to shut down his business in 2014 but can’t shut down the payment of the CB’s principal along with interest. Therefore, he should pay INR 0.25 million, which is equal to INR 0.02 million which the unpaid outstanding from 2014 plus the 2015’s outstanding payable, from his pocket.

Whereas X has continued his business and finally at the end of the fifth year he ended up with the profit of INR 1.7 million after all the payment of the principal and the profit of IB had paid. While the IB has earned the total profit of INR 0.3 million over the principal of Rs.1 million in which the IB’s share was Rs 0.21 million and the MD’s share was 0.09 million. While the CB has earned the total interest of Rs 0.15 million which is 50% of the IB’s profit in which the CB’s share was INR 0.105 million which is 50% of the IB’s share and the SD has received 0.045 million which is less than half of MD’s received.

Microeconomic perspective, every one of the IB’s stakeholder has been satisfied with a higher profit; therefore, the transaction was a win-win transaction. On the contrary, the interest-based transaction, neither CB nor SD has satisfied as much as their peer IB and MD. And furthermore, their client (Y) will join the poverty circle because of his losing his original asset worth of INR 0.25 million. Hence, the interest-based transaction became a win-loss transaction. Thus from the interest-based transaction, neither the interest receiver nor the payer will benefit, but rather it would be created the deadweight loss of the economy.

Macroeconomic perspective, first, the difference amount of the IF’s each stakeholder and CF’s one goes to no one but deadweight loss therefore the economy has lost the aggregate amount of INR 2.1 million (the total business profit of X which could have earned by Y and the net business loss of Y) from the value-added of GDP. Second, the CF causes to increase unemployment, income gap, and poverty, and the productivity decrease, which could be interpreted in two ways either quantity or quality. The former cases lead to nitration decrease causes to have a poor health condition, and the latter cause to increase the price of cloth which is one of necessity product would fall into the unaffordable price. Therefore Riba (interest) not only destruct the individual but the society. Figure 1 shows the same result as table 1.

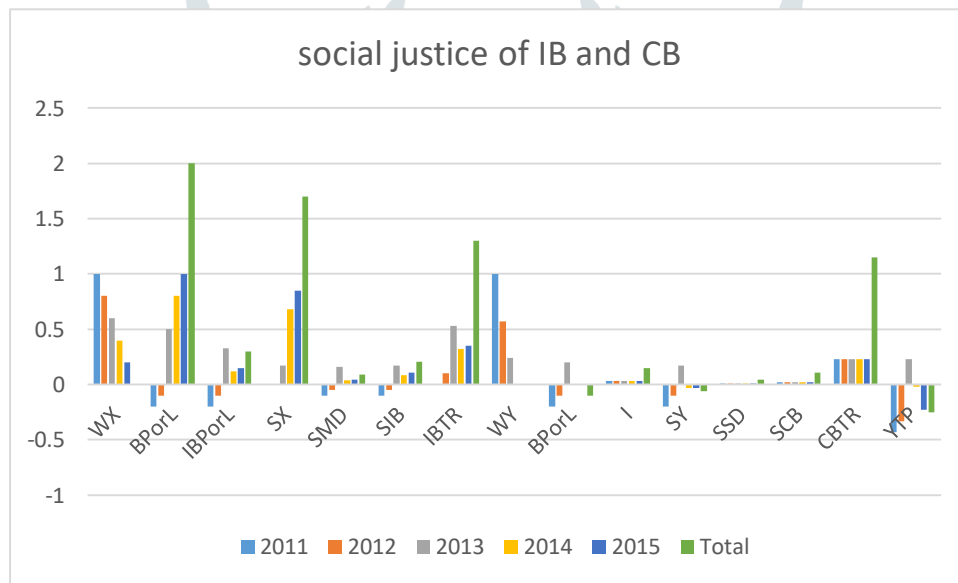


Figure 1 comparison of social justice of IB and CB

**Assumption two:** the banned products from Islamic finance. Assume that there are two persons (Mr. W and Mr. Z) who wanted to do business and one of them invest in real state and the other on liquor wholesale. Therefore the former went to IB and the other to CB. Each of them has got INR 2 million according to their host bank law which was mentioned in the previous assumption. For each of them, the repayment period was five years (from 2013 to 2017), and the 15% rate which refers for the IB would receive 15% of the profit and CB would receive 15% of the principal which is an interest rate. The details are shown in table 2 below.

Table 2 the comparison of social justice of Islamic finance and conventional finance ‘INR in million.’

Year	WC	BPorL	IBPorL	SW	SMD	SIB	IBTR	I	Sz	SCB	Ssd	CBTR
2013	2	0.25	0.04	0.21	0.01	0.03	0.44	0.06	0.19	0.04	0.02	0.46
2014	1.6	0.55	0.08	0.47	0.02	0.06	0.48	0.06	0.49	0.04	0.02	0.46
2015	1.2	0.9	0.14	0.77	0.04	0.09	0.54	0.06	0.84	0.04	0.02	0.46
2016	0.8	1.3	0.2	1.11	0.05	0.14	0.60	0.06	1.24	0.04	0.02	0.46
2017	0.4	1.5	0.23	1.28	0.07	0.16	0.63	0.06	1.44	0.04	0.02	0.46
Total	0	4.5	0.68	3.83	0.20	0.47	1.08	0.06	4.44	0.04	0.02	0.46

Source; the Author

In table 2, both the customer earn equal amount of profit each year therefore outstanding principal balance (WC) and business profit or loss (BPorL) are common for both W and Z. so this assumption will discuss the Microeconomic social justice of the profit distribution of the stakeholder of IB and CB and the Macroeconomic benefits of the two types of products.

The total profit of the business is INR 4.5 million in both cases at the end of the fifth year. In the case of IF, the shares of the three stakeholders such as; IB, MD, and W, are 11%, 4.5%, and 85% of the total profit (BPorL) whereas the shares of CF's stakeholders such as CB, SD, and Z are 4.2%, 1.8%, and 94% of the total profit, therefore, the CF's stakeholders; CB and SD have received less than half of their peers IB and MD in spite of their money had been caused to earn such a huge profit. However, the client (Z) has received almost all profit except 6% of it which is a very small amount; therefore the conventional finance wealth distribution is unfair, and also it will cause income inequality.

In macroeconomic perspective; the cases of IF; first. The amount of INR 4.5 million will be added to the economy of GDP. Second, the house price would be reduced because of the supply increase so that most people could afford to buy a house. Third, unemployment decrease because more supply needs additional employment. Income inequality decrease as there is fair distribution, and more employment and poverty will eradicate.

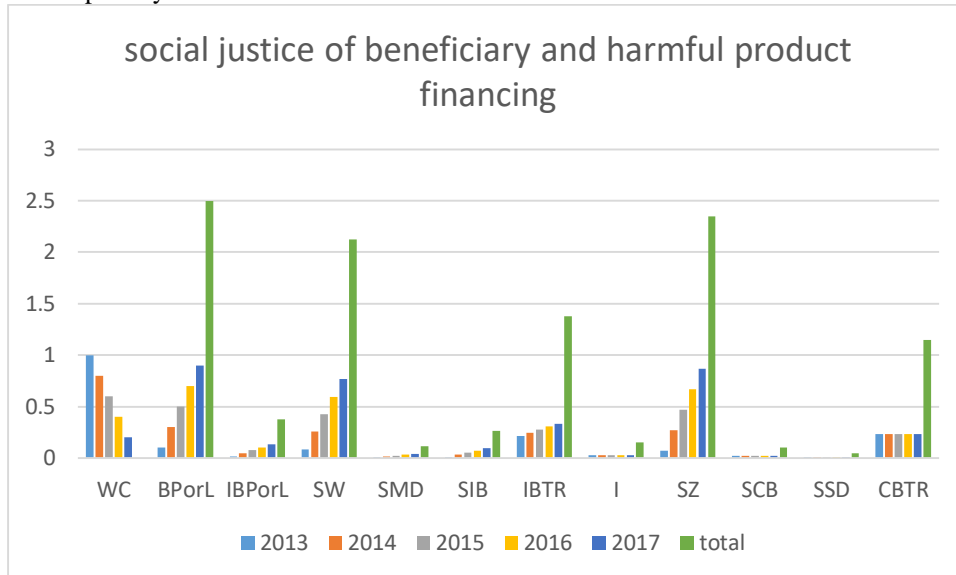


Figure 2 social justice of IF and CF of beneficial product and harmful product financing

In the case of conventional finance; first, the amount of INR 4.5 million will be added to the economy of GDP however the economy will lose more than double because of the danger of alcohol as the study indicates “the costs from alcohol use in India significantly outweigh the benefits. For every US\$1 that is gained from excise revenue and personal income and employment, US\$ 2.35 is lost to expenditure on health-care, productivity losses, crime and law enforcement, and road traffic accidents,” (world health organization, n.a) therefore the net value added to GDP will be negative. Second, the price of alcohol will reduce so that most people will be drunker. Third, the investor may hire additional worker so that alcohol production will increase and the economic destruction will increase by more than double. In the result, productivity will reduce, health security will deteriorate, which leads to poverty and high-income inequality, and criminal and accident will boost.

**3. Conclusions and recommendation**

This section demonstrate that the overall result of the paper which is findings and conclusion and followed by the author of recommendation and policy implication will be displayed

**3.1 Findings and Conclusion**

Islamic finance (IF) has multifaceted aspects in which; obligatory charity (Zakat), abstaining from Riba (interest or usury), banning the unlawful products and activities, avoiding speculative are included. Whereas the conventional finance (CF) has no such common rule and further interest is the major source of generating income, no product restriction, and also there is excessive speculative are exist.

Zakat is one of the best ways of the balance of payment. It could reduce income inequality, poverty, and unemployment which leads to promoting social justices. Zakat is only a very small portion of the rich property, so it doesn't reduce his wealth much, and even it will increase by the blessing of almighty Allah. However, it could advocate a dramatically change in the respective country development and on the other hand zakat payer also will benefit from the country's development. Therefore zakat has mutual benefit for the receiver and the payer as well. The other benefit of zakat payer is that it could abstain him from the destruction. Because, if the payer did not pay zakat, he would have spent his extra money from his need, in something bad indictable product or activities, i.e., alcohol, gambling, and likewise which are let him put his life in danger.

Allah has forbidden receiving Riba (interest or usury) on loan and in that way no one deal with unjust. Allah has permitted trade and forbidden Riba. Taking Riba is unjust. Allah said in Quran "...deal not unjust (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums). (Quran; chapter 2 verse 279). According to the above verse and some other verses, receiving Riba is unjust. Seemingly, taking Riba benefits the lender but not when we see the real-world situation of practicing Riba.

According to the above fact-based assumptions; Riba has Microeconomic and Macroeconomic impacts, but nobody benefits from it.

The Microeconomic impacts of the above assumptions; neither the conventional bank (CB) nor the saving account depositor (SD) got benefit as much as the Islamic bank (IB) and Mudaraba depositor (MD), but rather their client has shut down his business with the negative balance of INR 0.25 million and join to the poverty circle or might lose his life which is far from justice. In the case of profitability, referring to the second assumption; the profit distribution is unfair to the CB and SD. Moreover, according to world health organization study, the unlawful product which is alcohol consumption affect individual, family, GDP, and society.

And other similar unlawful products like tobacco, casino or gambling, etc. have also the same impact as alcohol on the economy and individual as well.

Regarding Macroeconomic impacts of the assumptions; there is a direct and indirect impact of Riba and Unlawful products and activities. The direct impacts of Riba are; increasing income inequality, poverty, and unemployment. The GDP growth rate and per capita income would decrease because the economy has lost the amount of INR 2.1 million net value-added income because of deadweight loss. Productivity and health condition will deteriorate because of losing a life and increasing alcohol consumption. The indirect impacts of Riba are; getting out of some investors from the market leads to monopolize the commodity, which leads to inflation; this also causes to decrease health condition and increase the mortality. And finally, the economy became unstable which leads to political instability. Therefore practicing Riba is not only destruct the individual but society.

In the Islamic principle of the transaction (profit and loss sharing), no one deals unjustly. Allah said, "Allah will deprive Riba of all blessing but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked. (Quran; chapter 2 Verse 276). Other Quran verse "the Riba that is practiced to increase some people's wealth, does not gain anything at Allah. But if you give to charity, seeking Allah's pleasure, these are the ones who receive their reward manifold."(Quran; chapter 30 verse 39)

Thus in a conventional doctrine, Social justice is only theory and Ideal; therefore, it doesn't achieve real justice because its basement is made up of self-interest rather than social well-being. Whereas in Islamic doctrine, social justice is practical as its basement is the social wellbeing and Justice. Social justice in Islam means closing the door of injustice and judge equally among the people. Allah said "O ye who believe! Stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts), lest ye swerve, and if ye distort (justice) or decline to do justice, verily Allah is well-acquainted with all that ye do." (Quran chapter 3 verse 135)

Economic and social benefits of Profit Loss Sharing (PLS) transaction are that of nobody deal with unjustly, advocating business brotherhood, no one loses original property because of uncertain profit or lose. Both parties can survive in the case of losing and proceed with their business, eradicate poverty, and reduce unemployment.

Even for the financier, PLS transaction is better than the interest-bearing transaction for interest-bearing transactions: - In the case of loss, the lender transaction will end up with the loss of the investor and create enmity with his business partner. In the case of profit, the lender may receive a small amount of the profit as interest even if the borrower earns a double or triple profit. Therefore the PLS advocates justice among the societies and no one deal with unjust.

### 3.2 Recommendations and policy implication

The prophet (PBUH) said: "Nothing makes a poor man starve except that with which a rich person avails a luxury." From this saying, we can understand two things first the right of the poor of receiving zakat from rich. Second the injustice of receiving Riba. Therefore in order to reach justice, the door of the injustice must be close and promote justice. Practicing Zakat is justice, on the contrary to practicing Riba.

Ali, the fourth Khalifa of Islam, said: "Allah has made it obligatory upon the rich to pay out of their wealth whatever is sufficient for the poor. If the poor starve, or go unclad, or suffer difficulties, it is because the rich have deprived them. Hence it is proper for Allah, the Almighty, and the Exalted, to bring them to account and to punish them." This saying indicates if everyone pays the prescribed Zakat on time, no one goes to starving. Therefore there is no resource scarcity, but there is wastage of resources like the deadweight loss and the expenditure for harmful products and additional expenditure to cure of their harm.

Zakat is the most important to bring the balanced development of the country. Therefore, the respective government should give attention to its collection and distribution. Awareness creation is one of the strategies to implement Islamic finance. Therefore the government should fulfill the facility for Islamic teachings and preachers

On the other hand, Riba is the most dangerous, and it benefits nobody so it must be destroyed in the economy. Therefore the government should include the Islamic Finance in the curriculum of teaching starting from the elementary class to the University level.

The existence of Islamic finance is necessary to achieve financial justice. Therefore the government should establish Islamic Finance and also support to the investor who wants to invest in Islamic money market and Islamic banking.

Justice is not only in financial perspective, but it is only one part of justice therefore further research especially in Islamic area is necessary so the government should set a policy that helps in opening of Islamic research foundation and improve Islamic study.

The government also should set policy regarding the unlawful products and activities so that they will be restricted and then eliminated gradually.

### To The Society

Zakat payment is not reduced wealth but increases it because Allah promised to make doublet the wealth of zakat payer and blessed it and also rewarded handsomely in the hereafter. Therefore the wealthy must pay zakat in time for the deserved people.

On the other hand, Riba is like Cancer causes for the destruction of society; therefore, no one gets a benefit from it so society must avoid it.

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